

Rethinking the Dynamics of Bilateral Trade Between Pakistan and India Under Modi's Regime: Implications for the Regional Political Economy of South Asia

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Abstract

This paper examines the tendency of bilateral trade between Pakistan and India during the tenure of Prime Minister Modi. Mutual relations between the two states have taken a new turn since Modi became the Prime Minister of India in 2014. In the first phase, bilateral trade relations were cordial due to surprise visits from both sides. In the second phase, the pattern of trade fluctuated with gradual increases and decreases, reflecting the dynamic geopolitical climate. Nonetheless, in the third phase, trade was suspended by Pakistan due to the revocation of Article 35-A. The reinstatement of Modi is once again a clear indication that trade talks will not be taken seriously, despite continuous efforts from the Pakistani side. Similarly, this study also sheds light on South Asia's challenges due to the weak and zilch bilateral economic relations between Pakistan and India. Against this backdrop, the central theme of the paper circles around the impacts of modi-nomics on the bilateral relations between Pakistan and India. The current study is significant for academics, politicians, policymakers, and political economists to know how the mutual hostility between Pakistan and India has reshaped the region's economic relations and has made South Asia the least-integrated region of the world.

Keywords: Pakistan India trade, south asian political economy, bilateral trade, economic nationalism

Introduction

The Bilateral trade between Pakistan and India has long been a subject of intense scrutiny, mainly because of the geopolitical tensions and historical rivalry between both nations. The history of both states has always been on a bumpy ride, marked by a series of deep conflicts, full-fledged wars, territorial disputes, and diplomatic stand-offs. Although there have been gradual efforts to normalize bilateral relations and promote economic cooperation, no fruitful results have been yielded. Mainly, the trade relations have been constrained by the political tensions and security concerns. The absence of normalized trade relations has not only hindered

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economic growth and development in both countries, but has also impeded regional integration and stability in South Asia. The mutual trade between Pakistan and India has fluctuated, which is directly connected to the geopolitical circumstances of the region. The changing regional order and global paradigm shift have also had a critical impact on bilateral trade relations. In this regard, under the leadership of Narendra Modi, trade relations between the two countries have undergone significant shifts, with implications extending to the entire region. Prime Minister Narendra Modi assumed office in 2014 with a mandate to revitalize India's economy to support its Hindutva approach (Khurshid & Khawaja, 2023). His approach to bilateral trade with Pakistan has been characterized by a mix of pragmatism, assertiveness, and occasional gestures of conciliation. His government has adopted a selective engagement with Pakistan, seeking to balance economic interests with strategic imperatives and domestic political considerations. For this, the bilateral trade between both countries has witnessed a seismic shift. Right after his assuming office, he signaled a few goodwill gestures towards Pakistan. Resultantly, the trade pattern became stabilized. The middle years had seen a steady decline, while in 2019, trade suspended totally between the nations. The revocation of the special status of Kashmir is the main bone of contention in all this. However, the progress towards normalizing the trade has also been hindered by security incidents, cross-border terrorism (Shabbir & Zeb, 2019), and divergent political interests. Moreover, the domestic opposition, bureaucratic red tape, and chauvinistic sentiments further complicate efforts to liberalize trade between the two countries. Consequently, the persistent bilateral trade between Pakistan and India poses serious repercussions for the South Asia region as well. The failure to address the issues of bilateral trade results in the political instability of the whole region, while the region has delved deep into political confrontations. The regional states become rivals with each other in the region. Next, due to the weak trade interdependence among the states, the region of South Asia has been divided into two main superpower economic camps. (Masahiro, 2021). This has created a strong sense of dismemberment in the region. The lack of proper infrastructure has also been a significant impact of the weak bilateral relations between the states, as all states have been dependent on the global big markets for their trade. If they trade themselves, it would open a great opportunity for the whole region to progress leaps and bounds (Lei, 2019). However, the mutual trade among SAARC (South Asian Association for Regional Cooperation) states has great potential and must not be let go unheeded. For this, the need is to reformulate the economic policies and adopt a win-win policy for bilateral trade. This study uses a mixed-methods research approach. It is primarily focused on qualitative design, grounded in discourse analysis. By examining how languages, narratives, and political rhetoric shape the leadership perception and policy outcomes at the national level, it provides a deeper understanding of the interaction between politics and economy between Pakistan and India. Along with this, textual analysis of the rhetorical communication has also been done to craft the most relatable meanings of the subject. This helps to understand political views, constructive narratives, and established agendas in both states. Contrastingly, it also integrates the quantitative data in the form of trade figures, economic indicators, and graphical representation to analyse the economic trends and trade patterns between Pakistan and India. Hence, this mixed-methods approach enhances the depth of analysis by supporting qualitative interpretations with numerical evidence. Furthermore, the research primarily relies on secondary sources, including academic journals, policy papers, think-tank reports, and media coverage from the reliable regional and international media outlets. However, to enhance the credibility of research, primary sources like major leader's remarks, official economic documents, the BJP (Bharatiya Janata Party) manifesto, and speeches of key leaders are also taken into account. Therefore, this study examines the impact of domestic politics and geopolitical factors on Pakistan-India trade, highlighting its significance for regional stability, economic development, and policy-making in South Asia. In short, there is no denying the fact

that the stability of the region is dependent upon peaceful political relations and high-class inter-regional mutual trade, specifically between Pakistan and India.

Literature Review

Pakistan and India gained independence from the British Raj in 1947. Although both states have been in continuous conflict since their inception on multiple fronts, the bilateral trade has always fluctuated between them. In this regard, Padder in his research reveals the fact that right after their independence, Pakistan and India signed a standstill agreement that allowed both states to trade duty-free. As a result, trade relations between India and Pakistan boomed to 70 % and 63 % respectively. The bilateral trade continued to grow until 1965. The 1965 war between them created a large rift in the bilateral relations, specifically the bilateral trade, between both states (Padder, 2014). After this, a trade embargo was imposed in the post-war scenario. Resultantly, foreign states started to incentivize the Pakistan-India trade markets, which further kept both states apart from each other.

In this regard, both states remained engaged as rivals in the informal war of 1971 in East Pakistan, however, Mirza in his study argues that the Post-war Shimla agreement in 1972 opened a new phase of trade between Pakistan and India. They awarded the status of (MFN) Most Favoured Nation to each other. Resultantly, mutual trade spiked from 3.8 \$ million in 1975-1976 to 24.04 \$ million in 1988-1989. Indeed, this was the developing time for both states. However, bilateral trade between both nations remained exposed to geo-political unfavorable circumstances, which was the most prominent resistance between both nations (Mirza, 2005). Unluckily, this balance of trade could not achieve its desired results and deteriorated gradually.

Ashraf noted that in the next decade of this hostility, mutual trade surged to 209 \$ million in (2001-2002) from only 122 \$ million in (1995-1996). In the decade of 90's, bilateral trade was little hindered by the nuclear politics of both states. Pakistan too had detailed its nukes at the end of the century. However, the visit of the Indian Prime Minister Atal Bihari Vajpayee to Pakistan in 1999 further strengthened bilateral trade agreements. The yearly growth rate of 7 % had been noticed at that time, which was seen as a welcoming step. The bilateral trade was booming with unprecedented growth, but unfortunately, the political instability and regional tensions once again loomed largely across the border and curtailed the economic growth between both nations (Ashraf, 2020). Nonetheless, Regmi et al. propagate that the establishment of SAPTA (South Asian Preferential Trade Agreement) in 1993 also opened the door to tariff-free treatment to its member states, from which Pakistan and India benefited largely. In addition to this, a new hallmark was achieved in the form of SAFTA (South Asian Free Trade Agreement) in 2006, as well. The core aim of SAFTA was to enhance regional integration and tariff-free trade among regional states. The SAFTA focused on trade liberalization, para-tariff, non-tariff barriers, technological support to Least Developed Countries, and revenue competition. In the middle years, the trade did not get maximization because of the 2008 Mumbai Attack and the suspension of the Composite Dialogue between both states. But, due to the large room for cooperation in SAFTA, the trade pattern between Pakistan and India boomed simultaneously. In the year 2015-2016, the trade was (2612.16 \$ million) as compared to the 2014-2015 trade of (2354.49 \$ million) (Regmi et al., 2017).

Kumar contends that for a better trade-off and long-term economic commitments, political stability is the most eminent prerequisite for nations. Unfortunately, the absence of political stability between Pakistan and India is the chief reason for weak economic relations between them. In this regard, the geopolitical tensions in the region rose to an extreme level in the aftermath of 2016. The Modi government's hibernating attitude, along with the security-led terrorism mantra against Pakistan, halted the mutual trade between both states once again.

Therefore, in 2014, a new disastrous turn between Pakistan and India emerged as Mr. Narendra Modi was sworn in as the new Prime Minister of India. Due to his active advocacy of RSS ideology and his commitment to Hindutva politics became a matter of grave concern for the stability of Pakistan (Kumar, 2018).

Apart from this, Ijaz claims that along with the political ideology, the long-standing security circumstances and social variables also hamper economic growth between Pakistan and India. The border of both states always remains on alert during Modi's tenure. Similarly, the main issue of this restrictive trade is the tariff and non-tariff trade barriers. The stance of the common man in both states turned hostile against each other due to rising nationalism. In the same way, overall trade policies of the Modi government were designated against Pakistan, due to which bilateral trade between both states was stuck at only 2612.16 \$ M, which was officially estimated around 4710 \$ M (Ijaz, 2017).

By the same token, the highest Indian exports to Pakistan were calculated in 2017-2018 at 2412.83 \$ M amid many political tensions. Unfortunately, the revocation of Article 370 altered the mutual relations between the states. The trade gradually downgraded, and Indian exports to Pakistan fell to only 282 \$ M in 2020 (Economics, 2024). Hence, the Indian allegations of cross-border terrorism, the abrogation of Article 370 in Kashmir, the hard stance of Modi against Pakistan, and the shifting paradigm of regional dynamics all play a crucial role in the hindrance of the mutual trade between Pakistan and India. To cope with all this, Pakistan altogether suspended its bilateral trade with India in response to the abrogation of Article 370. For this, both states have been bearing extreme economic losses by abandoning their trade relations with each other.

Liaquat and Abbasi discussed that among this rivalry and non-cooperation, it is not only the people of these states that have been suffering economically, but the whole trade power of South Asia is at stake. Due to their nonchalant behavior, economic cooperation among SAARC states is negligible. Recently, trade volume among SAARC states lies at only 2300 \$ M, which could spike to 6700 \$ M. The inter-rivalry and hegemonic aspirations of India and Pakistan intend to influence the other small nation-states in the region (Liaquat & Abbasi, 2023). This is why the structure of mutual trade in South Asia is lackadaisical and even short of basic trade facilities. The economic cooperation among them is not up to the mark. Hence, the lack of economic interests of both nations in smaller states has made South Asia a "Least Integrated Region".

Theoretical Overview

Neo-classical realism provides the most suitable framework for analyzing the complexities of bilateral trade between India and Pakistan. This theory posits that, although international structure is anarchic in which power is unevenly distributed, the state remains a primary actor in shaping its foreign policy and political decisions. Furthermore, it asserts the role of domestic variables like government structures, societal values, and leadership in influencing state behaviour within this anarchic system. For instance, it tells the factors that how Modi's economic constraints and Pakistan's retaliatory trade policies shape Pakistan-India trade rivalry. The domestic factors like religious sentiments, historic rivalry, local politics, and citizens' political aptitude drive the economic relations between the two states (Rajagopalan, 1998). For instance, the bilateral trade volume, which peaked at 2600 \$ M in 2018, fell drastically to less than 400 \$ M by 2022 (Abid & Chaudhury, 2025). Consequently, Pakistan starkly resisted the political decisions of India in Kashmir and vented its anger over the decision to terminate bilateral trade with immediate effect. This was not only the response of the state institutions of Pakistan, but was the amalgamation of the domestic counterpart circle that revolved around India. This demonstrates that domestic narratives are strong tools to shape the national-level policies of Pakistan and India.

Additionally, a chief premise of the theory revolves around the role of leadership in state affairs. The perception of leadership leads to interpreting the international environment and the country's stance through domestic politics, historical experiences, and cultural context (Sridharan, 2020). These leadership variables then instigate leaders to shape foreign policy and bilateral relations accordingly. In this regard, "Modi's Make in India" initiative and "Goods and Services Tax (GST) Reforms" prioritize the domestic market and exports to larger economies like China, specifically sidelining Pakistan. Despite having a political tussle with China, PM Modi reemphasized bilateral trade with China, which volumed to 127.7 \$B in 2024. Surprisingly, after the US, China is the second-largest partner of India in trade, marking Modi as a leader who uses the policy of "Economic Statecraft as a Tool of Power Projection" (Chowdhury, 2023). Despite shared borders and historical trade relations of India with Pakistan, the economic potential goes unrealized, which can be explained by these unit-level characteristics mediated through leadership goals.

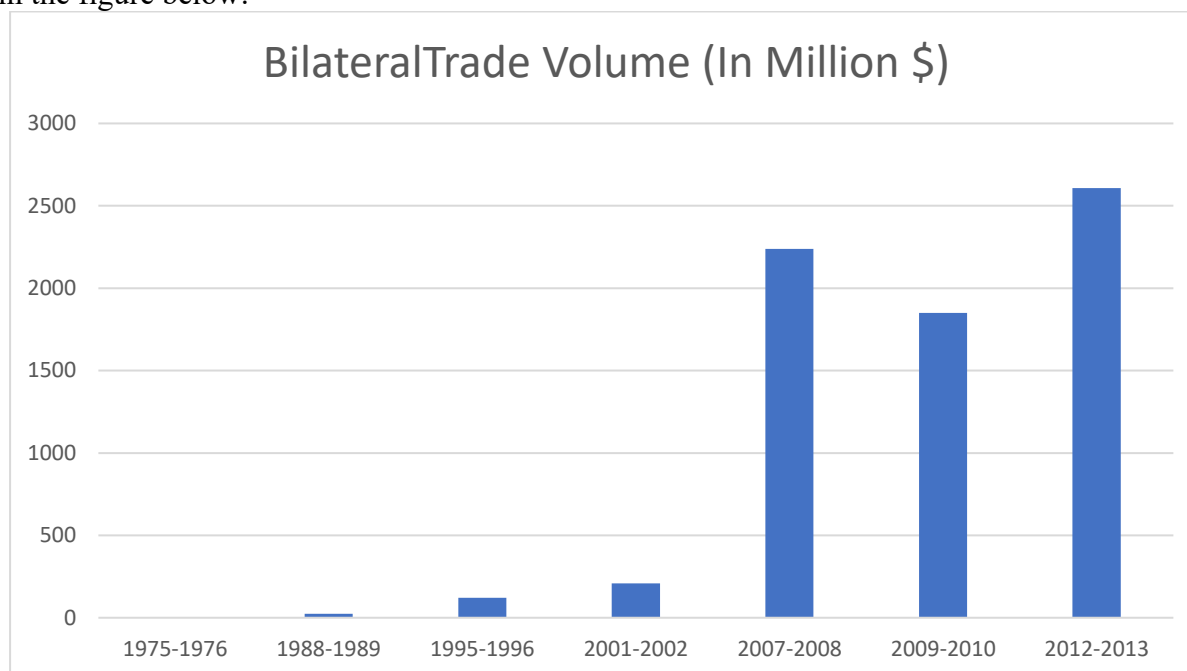
Neoclassical realism also helps explain why, despite external pressures for cooperation, such as from international financial institutions, regional forums, and global economic trends, the trade relations between Pakistan and India remain highly politicized (Michael, 2018). These are not only the domestic factors between both states that hinder the trade relations, but the international factors or the global economic order are also critical in this regard. The international financial institutions, regional economic forums, and the global economic trends, to which India strongly aligns itself, make India deal with Pakistan on a minimal level. On the other hand, Pakistan and India are in opposite economic global blocs. India garners the backing of the West and the US, while Pakistan has the support of China. Regardless of the fact that India does trade with China more than Pakistan does, the geopolitical realities indicate the point of divergence in the economic alliances of both states. This chain of difference is also a driving factor that trade between the states cannot be utilized to the full extent. Following this, geopolitical relations of South Asia have always been marked by power asymmetry and regional anarchy. The South Asian regional economy is heavily impacted by great countries, and outside forces are occupying the trade markets. This makes the inter-state multilateral trade among SAARC states very negligible. The data reveals the fact that trade among SAARC states is limited to 22 B\$, encompassing only 3% of the whole trade of the region (SCCI, 2021).

In essence, domestic factors between Pakistan and India have the most significant impact on shaping their bilateral relations. The deep-rooted societal values, strategic miscalculations, historical grievances, and persistent sentiments of rivalry hinder opportunities for mutual economic cooperation. Furthermore, the role of national leadership, such as Narendra Modi, is very decisive in formulating and sustaining bilateral relations with Pakistan. His personal charisma and RSS ideology advocate his stance against Pakistan. Therefore, the neo-classical approach diametrically fits in the analysis of the bilateral economic relations and trade value between India and Pakistan.

Pakistan-India Bilateral Trade: A Historical Overview

India and Pakistan were economically interconnected at the time of independence. In 1948-49, India accounted for more than 50% of Pakistan's imports and over 24% of its exports. At first, both countries explored deeper economic connections, including the possibility of a customs union. However, tense relations resulted from ongoing political confrontations over currency, water rights, asset divisions, and frontiers (Pasha et al., 2012). Trade was suspended for nine years as a result of the 1965 conflict. While bilateral trade with India fell precipitously as tensions increased, Pakistan's commercial priorities switched to other allies, especially the USA. Due to a lack of domestic production capability, Pakistan was largely dependent on Indian produced goods during the partition, including bicycles, soap, vegetable oil, and textiles (Naqvi, 2007).

Gradually, in the last quarter of the 20th century, a significant shift has been occurred in the bilateral trade between both states, that continued to grow by the second millenia of the 21st century. The trade volume witnessed a steady path before the takeover of PM Modi, as shown in the figure below:



(Source : Data Compiled by the Author)

The data illustrates that since the decade of 1970s, bilateral trade between the two has experienced a gradual upward trajectory. A significant jump occurred after 2001 due to the diplomatic engagements and official visits of Atal Bihari Vajpayee, which stabilized the trade path between both states. However, this momentum was disrupted due to the Mumbai Attack in 2008, which led to a temporary decline in the bilateral trade (Taneja, 2007). Despite this setback, the government-led facilitation of trade by the incumbent Congress Party rebounded trade strongly in 2012-2013, once again hitting all-time-high figures. The main reason for the trade facilitation before the Modi regime was the less polarized politics of India. At that time, India was considered a liberal democracy, and the governments of that era, mainly the Indian National Congress, showed a positive attitude towards economic matters (Kumari et al., 2023). Another consideration was that India did not have such a strong economy at that time. The total GDP of India in the decade of 1980s revolved around only 186.3 \$ B, which slightly fluctuated to 484.5\$ B in 2001. The main reason for the high trade between the two countries was also the trade liberalization policies of PM Manmohan Singh, which openly catered to Pakistani markets for the maximum utilization of the Indian economy (Vaid & Miani, 2014).

Investigating the Trends of Mutual Trade During Modi's Tenures

In 2014, a staunch advocate of Hindutva ideology, Narendra Modi, was elected as the Prime Minister of India. His era of power has been a continuous time of crisis for Pakistan. The bilateral trade relations between India and Pakistan have fallen to the zilch level. Therefore, to assess the deep-rooted impact of Modi-nomics on the bilateral trade between Pakistan and India, 03 phases of PM Modi's tenure have been assessed:

Phase 01 (Surprises of Modi)

The enthronement of Modi in 2014 opened a new Pandora's box in the politics of Pakistan. His previous record did not favor Pakistan due to his anti-muslim rivalry. However, at the very start, Modi surprised Pakistan with his two goodwill gestures. Firstly, he invited Mr. Nawaz

Sharif, the then PM of Pakistan, to his inauguration ceremony. The bilateral rivalry seemed to be declining as both leaders wanted to revive the bilateral trade. Right after the ceremony, the commerce secretary-level talks started, aiming to revitalize the trade relations. On the other occasion, PM Modi visited Pakistan to congratulate the granddaughter of PM Sharif on her marriage. Both leaders had good formal meetings, and the speculation of peaceful neighbors once again spiked to an extreme level (Barry & Masood, 2015). PM Modi emphasized that trade must be carried out between Pakistan and India. As a result, the official talks started in 2015 once again on trade efficiency. Unluckily, the internal repression of both states did not favor the trade talks to gain fruitful results.

Consequently, exports of Pakistan to India increased from 84 \$ M in 2013 to 312 \$ M in 2015. The imports increased from 1400 \$ M to 1669 \$ M in a few years. In 2014, the trade deficit of Pakistan with India lay at 1710 \$ M. However, in 2015 it decreased to only 1360 \$ M (PBC, 2017). This shows the positive impact of Modi's surprise on the bilateral trade between Pakistan and India. It has also been speculated that Pakistan-India trade may touch 10 \$ B by 2015, if trade and internal barriers are removed (Ishfaq, 2020).

Phase 02 (Fluctuations of trade)

The post-2015 era saw no such high and low demands from both sides. In 2016-2017, although the trade increased to 2610 \$ M, the trade volume was a positive sign for the enhancement of economic cooperation. In 2017-2018, the bilateral trade once again plummeted to 2410 \$ M. The trade balance led to a surprising 1300 \$ M, the export data stood at 1830 \$ M while the imports gathered at 4560 \$ M (High Commission of India, 2019). Hence, the middle years of PM Modi witnessed an unstable trade pattern between both nations, with no clear purpose and road to follow.

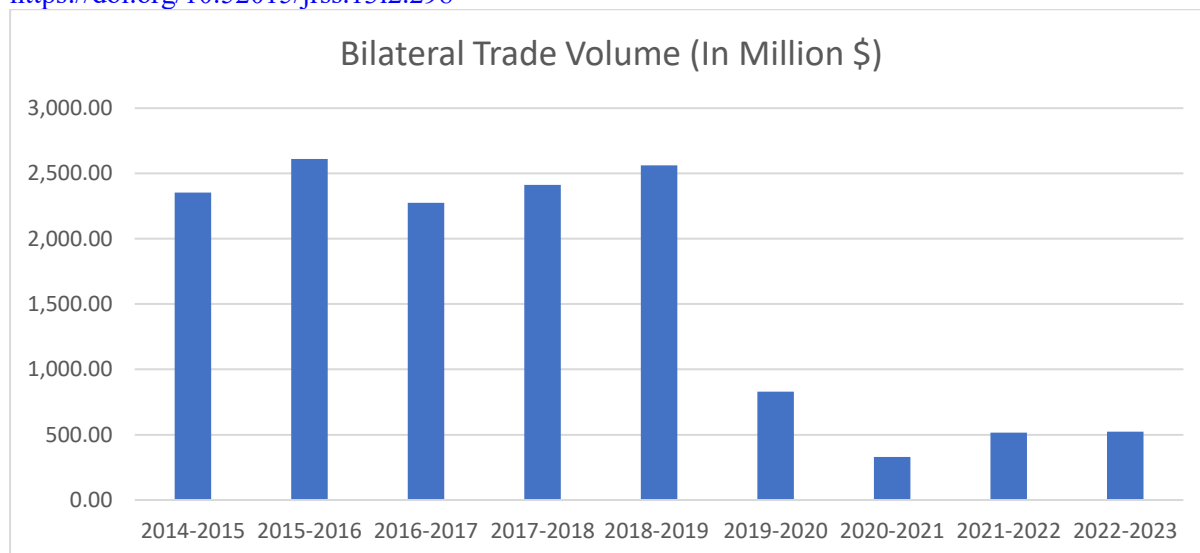
Phase 03 (Post 2019 - The no-return move of suspension of trade)

The year 2019 marked another critical era of relations between Pakistan and India. As Kashmir is the main bone of contention between Pakistan and India, it has historically deteriorated the economic relations of the two countries as well. Articles 370 and 35-a hold an important place in the history of Kashmir. The fascist policies of PM Modi led to the revocation of the articles that provided Kashmir a special status. Even though there was a large hue and cry against this policy by Pakistan, the Modi government remained determined to change the legal status of Kashmir (Ahlawat et al., 2020).

In response to this Indian atrocity, Pakistan suspends its trade ties, diplomatic relations, and closes its airspace. The suspension of trade was decided by PM Imran Khan, which was also endorsed by the National Security Committee and the Joint Session of Parliament. Along with this, Pakistan also suspended imports of Indian goods under the Pakistan-Afghanistan Transit Treaty. This decision lifted India to the list of Israel, as Pakistan has banned its bilateral trade with Israel as well. Hence, the Kashmir issue once again derailed the prospect of high-level mutual trade between both states (Khan, 2019).

On the contrary, India was adamant about its trade relations with Pakistan. India has not been affected much by the unilateral decision of Pakistan. In this regard, this decision favored India. It left Pakistan in a looming crisis, as India was the 6th largest trading partner of Pakistan, while Pakistan remained at the 48th position at that time. The financial analysts claimed that Pakistan must not take this step in a hurry, and in the disguise of nationalism. Pakistan's foreign reserves at that time stood only at 7.76 \$ B, which was even lower than Bangladesh's 32 \$ B. The GDP forecast is down to 4 pc. As inflation stood at 9 % in 2019, it was not a wise decision to suspend trade with India (Kapoor & Sharma, 2019). It has only hurt the economy of Pakistan badly.

Regardingly, the mutual trade during the Modi era witnessed a steady rise and then a permanent decline, commonly referred to as "Zig-Zag Economy", as mentioned in the figure below:



(Source: Data compiled by the author)

It is clear from the data that bilateral trade in the Modi regime has always been in an unstable mode. While bilateral volume remained high, touching 2700 \$ M in the early or middle years of the Modi Regime, however, after the revocation of Article 370 in 2019, the trade became suspended and the bilateral trade fell even below 300 \$ M in 2021 (OEC, 2025). There is no denying the fact that in Modi's regime, the Indian economy strengthened with an all-time high GDP. According to the sources, the GDP of India in 2024 surged to circa 4 \$ T with an estimated yearly growth of 6.4 % (Panagariya, 2025). Comparatively, the GDP of Pakistan stood at 373 \$ B in 2024. This mammoth difference shows that India does not give an inch to Pakistan in economic strength. Therefore, the pulmetaion of bilateral trade between both states impacts Pakistan more than its counterpart.

The Modi Regime's Strategic Approach: Regional Ambitions and Pakistan Calculus

The Modi regime's strategic approach is shaped by a blend of domestic political imperatives and regional geopolitical ambitions. However, Pakistan enjoys a special place in PM Modi's political strategems. Therefore, the economic policies of PM Modi are largely driven by the factors discussed as follows:

1. Domestic political gains

Modi has, over time, strengthened his political status by portraying himself as a common leader of India, who always secures the Hindu population with the Akhand Bharat ideology (Mushtaq et al., 2024). As time passes, the rapid spike of religious nationalism has been witnessed in Modi's India. Hindu nationalism under his control aims to exclude the other minorities, like Muslims and Sikhs. Methods that are similar to Jim Crow in the US are now being utilized against minorities. For instance, executing law, segregation, and vigilant violence are now tools and tactics to subdue Muslims. Judiciary too has become the handmaid of Modi's Sarkar, which proves slow to play its assigned role as well (Varshney & Staggs, 2024). All this led to the game of Domestic Political Gains, which Modi effectively used against Pakistan. On this matter, the anti-Pakistan rhetoric has proven advantageous for the electoral politics of the BJP. It also mobilises nationalist sentiments for the Hindu vote bank. There are continuous assessments that PM Modi has consolidated deep-rooted power in Indian politics by playing the victim card of terrorism and taking a stance against Pakistan.

2. Geopolitical positioning of India

Apart from this, PM Modi is actively advocating for a strong foreign policy to maximise the political interest of India. Currently, his foreign policy is a blend of India's global

standing along with economic pragmatism. Similarly, to become an influential stakeholder, he is leading India on the road to international institutions. The core of his diplomatic strategy revolves around the “Strategic Autonomy,” which focuses on prioritized but balanced relations. For example, PM Modi is equally engaged with the Russians and Americans at the same time. Although India is a US super-ally to counter the Chinese rise, the trade volume between India and China reached 127.7 \$ B (Aziz, 2024). This shows the economic commitments of PM Modi that he wants to carry out in his third term as well. Furthermore, John J. Mearsheimer propagates that a state must be a regional power before it becomes a global power (Mearsheimer, 2001). For this, India also portrays itself as a regional policeman, specifically in Afghanistan and the Indo-Pacific. Likewise, Pakistan has been observed nefariously as the ally of China, which is altogether unacceptable for the Indian community. This compels PM Modi to go against Pakistan to show his strong geo-strategic position in the region.

3. Pakistan as a National security threat

By keeping in view the afore-mentioned factors, Modi has marked the footprint of animosity against Pakistan so deeply that the coming generations and the successive governments will have to succumb to this. In this respect, the BJP government has normalized enmity towards Pakistan via the anti-Pakistan practices in Indian domestic politics (Pandya, 2019). Consequently, the post-Modi era will also adhere to this hardened stance against Pakistan, which makes regional peace and bilateral trade very difficult. For a decade, PM Modi has continuously emphasized Pakistan as a national security threat. The persistent tensions on the borders and the militant infiltration have caused PM Modi to directly blame Pakistan. His government always adopted a hard-line posture as the FM Jaishankar proclaims that “If talks and terror can’t go together, neither can trade and terror” (Sareen, 2024). India accuses Pakistan of breeding terrorist cadres like Lashkar-e-Tayyiba (LeT) and Jaish-e-Mohammed (JeM) to counter the Indian hold in Kashmir (Beaumont, 2025). This shows that the Indian foreign policy towards Pakistan is being shaped by security reasons, that is, the greatest threat to India.

Hence, it is starkly clear that the Indian political, social, and strategic posture under the leadership of PM Modi has turned against Pakistan. Indeed, going against Pakistan is a huge triumph for PM Modi, regardless of what the national interest claims.

The Possible Prospects of Trade after Modi’s Re-installment in 2024

The systemic slogan of PM Modi in his election campaign of 2024 (Ab ki Baar, 400 Paar) has been brutally vanished in the Lok Sabha election of this year (Wyatt, 2024). Although he has still made his way to the prime ministership of India, this time with a weak coalition. Across the border, it was crystal clear that the Modi government would adopt a hardline approach against Pakistan this time as well. For this, there was no or little indication of resumption of trade talks by the new Indian government as well. To assess the post-election scenario of mutual trade between Pakistan and India and the hard-line approach of Modi's policies, the following trends are on the board:

1. BJP manifesto

The policy formulation of the BJP after the elections in 2024 is evident in their manifestos. In its carefully drafted manifestation, a large emphasis was put on “Combating Terrorism”, referring to Pakistan. It proclaims, “We are committed to taking concrete steps on International forums against countries and organizations supporting terrorism and will take all the necessary measures to isolate such countries.” (BJP Manifesto, 2024). Indeed, this terrorism rhetoric is aimed at Pakistan and has been part and parcel of the BJP government. It used the terrorism mantra against Pakistan several times to gain sympathy and efficacy for its popular cause.

It is also an interesting fact in the BJP's manifesto that it does not mention bilateral trade, specifically with Pakistan, directly, despite the inclusion of comprehensive sections on economics as well. BJP is willing to implement the Citizen Amendment Bill and desires to combat terrorism and left-wing extremism efficiently. Therefore, it seems hard for the BJP government to initiate serious trade talks with Pakistan on the economic front, as it garnered votes in opposition to this.

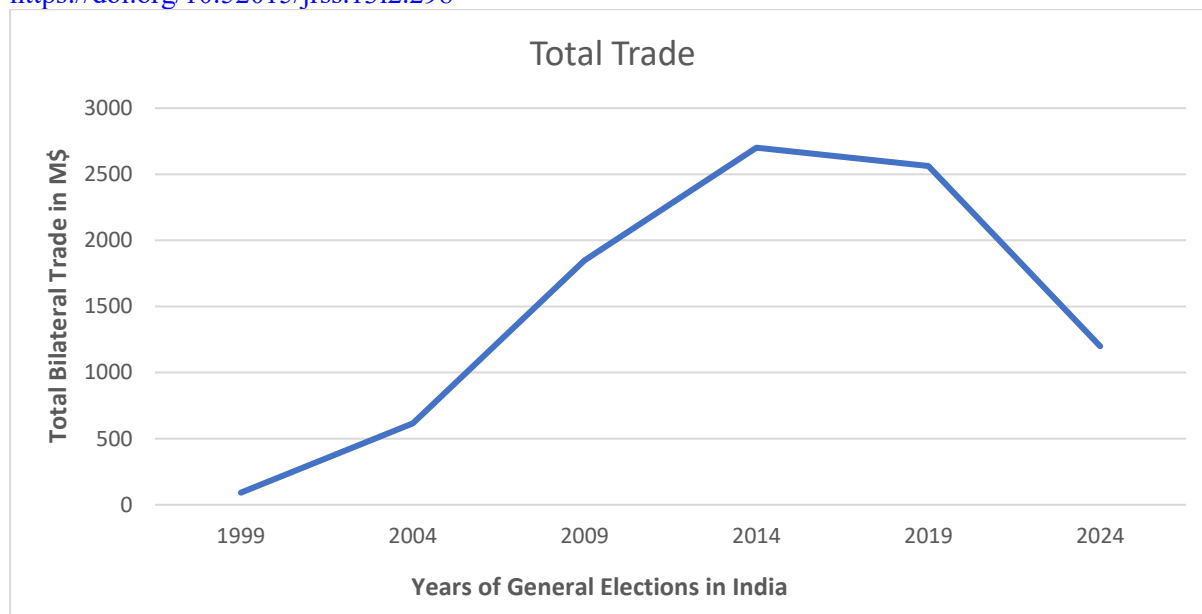
2. PM Modi's speeches

In addition to the BJP manifesto, Modi has always been geared up to cash his anti-Pakistan narrative. During his speech, he discloses Pakistan as an "Exporter of Aatank, Struggling for Aata" (Times of India, 2024). It means that on one hand, Pakistan is the harbinger of terrorism, while on the other hand, its people are not even able to get wheat at cheap prices. In another speech during the election campaign, Mr. Modi resembled Pakistan and Indian Muslims to terrorists and threatened them as "Ghar me ghus kr maarna" (Attacking inside their homes) (Times of India, 2019). Similarly, he also constructed a nexus of Pakistan with the opposition party Congress as "Congress marr rhi he, Pakistan ro rha he" (Congress is dying, Pakistan is crying) as well as "Pak ke attank ka tire puncture ho gya he" (The tire of Pakistan's terrorism has been punctured) (Jha, 2024). This type of dangerous sloganeering by Modi has dashed the prospect of bilateral trade between Pakistan and India.

This eternal hate of the Hindutva-led BJP towards Pakistan is also a core hindrance to peaceful relations. However, by chance, if Modi still wants to uplift the bilateral trade talks with Pakistan, this time he would face strong resistance from within his party. In short, Modi perpetuates an antagonistic policy environment that deters diplomatic or commercial interaction by associating Pakistan's economy with insecurity and making fun of its economic struggles. Such divisive rhetoric politicizes trade relations and increases mistrust between parties, making economic collaboration a victim of electoral populism (Zaidi, 2024).

3. The previous post general-election trends in India

The post-election trends of mutual trade garner specific importance in analyzing the prospects of the current Pakistan-India bilateral trade. When Modi won the election in 2014 and formed a government, trade with Pakistan spiraled downward. In 2012-2013, the trade volume was 2600 \$ M, which decreased by -12.83 % after Modi's premiership. The trade in 2014-2015 was only 2300 \$ M. However, the bilateral trade strengthened in the upcoming years. In 2017-2018, the trade volume between both nations was around 2400 \$ M. However, the 2019 stand-off between Pakistan and India once again impacted the trade negatively. The suspension of trade ties after the Kashmir issue plummeted the trade to 2280 \$ M (High Commission of India, 2020).



(Source: Data compiled by the author)

Therefore, the data shows that after every GE in India every time, bilateral trade went upward in the last three decades. However, after 2014, coinciding with PM Modi's rise in 2014, trade volume began to decline gradually. The sharp dip after 2019 underscores how political hostility and unresolved disputes directly undermine economic engagement. As described by neo-classical realism, the domestic political structure shapes the economic policy of the state. The domestic politics, until it was in favour of Pakistan, were good for the bilateral trade, while the political manipulation of the domestic politics on both sides led the trade to derail gradually.

Pahalgam Attack - Trade Prospects Fade Amid Escalating Nuclear Tensions

On April 22, 2025, a lethal terrorist attack once again occurred in Phalgam in the Indian Administered Jammu and Kashmir. The attack claimed the lives of 26 tourists, with The Resistance Front (TRF), a Kashmiri freedom movement, taking responsibility for this lethal attack. According to their claim, the attack was the answer to the Modi regime for its abolition of the special status of Kashmir. Within a few minutes of the attack, Indian media started blaming Pakistan for this heinous act of terrorism. Contrarily, Pakistan asked India to come with proper and credible pieces of evidence. However, in the next few days, both states started the violent skirmishes across the Line of Control (LoC) (Rawnsley, 2025). The rivalry between the two countries was further strained by the drone attacks from each side over the major cities of the other. Amidst this, Pakistan claims that it shot down the Rafale jet, the most prominent air combat tool of India.

This episode of war shattered the remaining India-Pakistan trade prospects, plunging bilateral relations into a vortex of nuclear tensions. India's retaliatory measures, halting \$1.2B bilateral trade, closing the Attari-Wagah border, and suspending the Indus Waters Treaty, devastated Pakistan's fragile economy, with a 7.4% fiscal deficit and 16 \$ B reserves (Vivek, 2025). Pakistan's reciprocal trade ban and airspace closures, coupled with nuclear saber-rattling, including threats of "full-spectrum" retaliation, further entrenched economic isolation. Non-tariff barriers and logistical disruptions, already costing 15% annually (Sarda, 2025), worsened trade stagnation. As both nations exchanged missile strikes under India's Operation Sindoor, global calls for de-escalation failed to revive trade, dimming prospects for South Asia's economic integration and amplifying risks of a nuclear-fueled regional crisis. The blame game of the Indian government in the aftermath of the Phalgam attack is a sign that bilateral trade is now a doomsday dream, and its possibility seems zilch in the near future.

Key Challenges of Bilateral Trade between Pakistan and India

There is no escaping the fact that a huge untapped economic potential exists between Pakistan and India. The mutual trade between the nations could have a very positive impact on the economies of these nations. Unfortunately, the trade relations fail to underlie the desired outcomes because of the key rivalries between the states. These crises have been spearheaded during Modi's regime, too. Following is the list of critical factors that helped the high level of mutual trade between both nations:

1. Ultra-nationalism of the economy

The ultranationalism of the BJP and Sangh Parivar has found Narendra Modi a very suitable candidate to boost the saffron fascism. The fascist policies of Modi hindered the economic relations with Pakistan, mainly because of Indian national pride (Jaffrelot, 2019). The neo-realists argue it too that the leadership plays a critical role in perceiving their narrative to consolidate their interests. Surprisingly, he amalgamated ultranationalism with the neo-liberal economic policies. On one hand, Modi is hindering trade with the notion of Indian Pride, while maintaining the Free Markets strategy, on the other hand. In this regard, the saffron fascism of the BJP hinders the economic trade with Pakistan based on national superiority, religious courtesy, and its arch-rivalry with Pakistan.

Apart from this, nationalism has been in demand from the Pakistani side too. For instance, when Pakistan granted India MFN status, a large score of hullabaloo was created in Pakistan by the ultranationalists. Even in the minds of common people, the trade with India is diametrically opposite to the two-nation theory propagated during the inception of Pakistan (Singh, 2023). Hence, the recent emergence of ultranationalism on both sides impedes the fruitful bilateral trade between Pakistan and India.

2. Cross-border terrorism mantra

The term terrorism has been deeply entrenched in the politics of Pakistan and India. The Kashmir issue has not only fueled tensions between the states but also has broader implications, including the proliferation of terrorism. Various militant groups have been operating in the region, with some receiving support or antipathy from the official elements of both states. The Pathankot, Uri, Mumbai, and Pahalgam attacks in India were blamed on Pakistan. On the other hand, the rise of Indian spy politics has been evident in Pakistan too. Pakistani forces captured an Indian spy (Kalboshan Jadev) from the sensitive area of Balochistan province. Similarly, it is also on board that India had allegations of up to 20 assassinations on foreign soil, significantly in Pakistan (Waqas et al., 2024). This shows that variables of domestic politics, like terrorism and extremism, also play an important role in the geopolitics of these two nations, which is a basic tenet of Neo-classical Realism. Resultantly, the environment of fear and distrust evolves across the border. The public also demands to shut off all the trade systems of the country that promote terrorism on their soil. Hence, this cross-border blame game, crystallized by the advent of Modi politics, hampers the effectiveness of mutual trade between both nations.

3. Major trade barriers

The trade between Pakistan and India has always been mired in the middle of major trade barriers. Apart from the aforementioned political and strategic crises, the following trade barriers hinder trade liberalization between the states:

a. Lack of land/rail route

A recent study shows that 80 % of Indians and 90 % of Pakistanis prefer the road route for bilateral trade. There is no escaping the fact that freight trains are more convenient, yet they are insufficient to get the desired results for high-class trade. In fact, in the

1994 pact, India identified 13 land routes for trade with Pakistan, but presently, Pakistan India trade is permitted on only one land route, i.e., Attari-Wahgah Cross Border (Dar et al., 2023).

b. Illicit drug trafficking

The undocumented economy or drug trafficking between both states has been done by the hawala/hundi business. The study shows that 60 % of people in Pakistan and 72 % of people in India desire the Hawala/Irregular payment in bilateral trade. Recently, the wave of drug-carrying drones flying into India has been captured by the Pakistani authorities. Additionally, for a drug worth 600 crore, 14 Pakistani men were caught in massive operations on the Gujrat Coast. This informal trade causes great damage to the state's control on both sides (Kulkarni, 2024).

c. Non-tariff barriers

Nonetheless, the lack of banking facilities and the expansion of informal trade via third countries are also part and parcel of informal business on both sides. The dissimilar customs procedures and visa restrictions directly impact the efficiency of mutual trade. Furthermore, (Gill & Maadan, 2015) propose that mutual trade is being hindered across the border because of the dismal labeling and packaging requirements as well. The under- or over-invoicing of goods is a primary factor of non-tariff barriers. The mishandling of goods and infrastructure constrains the social trust of people in their government. The lack of modern-day single window operation makes the traders less interested, and they prefer trading with other countries where they could get much easier.

Opportunities at Hand for Pakistan

Undoubtedly, there is a strong desire for bilateral economic cooperation from the Pakistani side. The foreign minister and Deputy PM of Pakistan, Mr. Ishaq Dar, desires to revamp the trade relations with India. In his press conference in London, he highlighted the eagerness of Pakistan's intentions to reconsider the trade relations with its neighboring nation. He was starkly clear about this and said, "We will seriously look into the matter of trade with India" (The Express Tribune, 2025). In another move, the top business community in Pakistan, in its meeting with PM Shahbaz Sharif, asserted the stabilization of relations with India. They complained that it is getting very hard to do business in Pakistan for many reasons. So, the Indian trade option must be open for Pakistan (Umair, 2024).

Despite all the odds, Pakistan also has much to gain indirectly from its Indian neighbor, specifically in the IT market. For instance, India ranks on 33 in the Global Innovation Index while its IT-BPM industry is estimated to have generated \$253.9 billion in revenue, with 11 % per annum growth. Recently, the job sector of India in the IT market has grown by 15-20 % across various industries (India IT Services Market Size & Outlook, 2030, 2024). For this, Narendra Modi aspires to make India a modern nation-state, specifically in the technological field. This invites Pakistan as a huge opportunity to gain access to the Indian IT market. Although the IT market of Pakistan itself is tapped at 3.2 \$ B (Umid, 2024), the Indian IT market is a viable option for Pakistan to maximize the technological interest. Consequently, this will have an overlapping effect on the other segments of the bilateral relations as well. The gigantic Indian economic market is also an opportunity to lead the bilateral trade between Pakistan and India for the better utilization of their peaceful relations.

One of the chief contenders for Pakistan is the PM Modi's outreach programme to Afghanistan and the Central Asian republics. There is no denying the fact that the government of PM Modi has been exploring the regional markets to expand its economic output. For this, Central Asian Republics are being considered as a worthwhile market value for India. However, without the support of Pakistan, it seems difficult for India to reach out there. Similarly, PM Modi is actively seeking diplomatic and economic support in Afghanistan.

Largely, the Indian projects like TAPI and CASA are the backbone of the economic stability in this region (Barari and Falarti, 2023). Comparatively, Pakistan possesses a strong hold in this region. It can facilitate the Indian market through Afghanistan and Central Asian states that will not only boost the economy of Pakistan but also open multifaceted doors of opportunities for bilateral trade between both states.

Pakistan-India Bilateral Trade and Its Impacts on South Asia

Pakistan and India are the two major states in the South Asian region. Despite the huge potential of collaboration in South Asia, it remains the least integrated region due to the continuous tussle between the nations. It has also hindered the economic development in the region. According to recent stats, the inter-regional trade in South Asia is less than circa 3 %. The major impacts of the weak bilateral trade pattern in South Asia are under-mentioned:

1. Political instability of the region

The less preferential trade in the region spikes the political instability in the region. The countries like Pakistan and Afghanistan delve deep into the myriad of political uncertainty. Nonetheless, the recent spike in ultra-nationalist rhetoric against each other also makes these states less important in the region. Recently, the elected PM of the Maldives, Muizzu, led an anti-India campaign that further deteriorated the situation (Paul, 2018). The Pakistan-Afghanistan relations have also worsened, while the India-Pakistan tussle is most prominent. This political tussle among the countries is due to the absence of bilateral trade in South Asia. If these states were entangled in mutual trade, they would become more interdependent. As a result, the political sanity will prevail and the region will become stabilized.

2. The influence of major powers

The weak regional trade pattern in South Asia incentivizes the major powers to play their proxy politics in the region. The majority of the states are under the influence of the superpowers. Even due to less consensus, the states become part of the camp politics. The deleterious repercussion is that Pakistan and India are against each other. China has developed a mature economic link with small South Asian states. Although Nepal is somewhat closer to India in many sectors, China has promised 8.36 \$ B for infrastructure development and the Kathmandu-Lhasa rail link. The lease of Hambantota port to the Chinese company for 99 years also pushed Sri Lanka into the Chinese camp. In Bangladesh, China has initiated a 24.45 \$ B bilateral agreement for some 34 projects. The BCMEC is also a major factor that Bangladesh is siding with the Chinese economic camp. Furthermore, Pakistan is a key strategic partner for China. It encompasses the flagship project of CPEC (China Pakistan Economic Corridor), which includes major infrastructure projects like Highways, link roads, energy projects, etc (Baruah, 2018). In essence, South Asia has been divided into two regions because there is no collective economic consensus on one agenda among the states.

3. Lackadaisical infrastructure development

The equation of direct relationship occurs between infrastructure development and economic growth. Due to the weak inter-regional trade, South Asia has seen poor and undeveloped infrastructure development across the region. It has a limited number of physical infrastructures of energy usage, paved roads, telephone lines, rail density, and air transport. No proper one-window operation is organized, while only one route of bilateral trade between Pakistan and India is used. The major checkpoints are outdated. Technological revelations are seen nowhere. Online trade bookings and goods records are absent in South Asia (Khan & et al., 2020). Although Pakistan and India have developed a hypothesis approach for infrastructure development across the region, the political rivalry doesn't let this happen. The rampant corruption and institutional failure

also hinder infrastructural development. This is why trade potential has not been capped yet, and regions remain less integrated.

4. Dependence on global markets

As the South Asian states do regional trade on a minimal level, their markets are largely captured by global financiers. China, the EU, the US, and Southeast Asian nations are the major proponents of trade in the region. As a result, trade with powerful global states often bears maximum expense. The transaction and transportation costs while trading with outside states increase to an incredible level. According to a recent analysis, the trade potential among South Asian states is very high. If they trade inter-regionally, it would increase their mutual trade up to millions of dollars. This will also lessen the competitive and comparative advantage game of the states. Hence, the burden of trade in South Asia has been shouldered by the foreign powers, who are using cheap labor and minimum profit. It also exposes South Asia to the vulnerabilities of global economic fluctuations and disruptions due to the over-reliance on external markets (Nawaz, 2020).

5. Weak economic growth

According to the World Bank report, South Asia is expected to grow strongly by 6 % in Fiscal Year 2024. However, this growth rate seems to be more deceptive. The major economic contributions in South Asia come from India, Pakistan, and Sri Lanka. But the structural challenges threaten to undermine sustained growth, hindering the region's ability to create jobs and respond to climate shocks. Unfortunately, for most of the states in the region, growth is still below the pre-pandemic level and is reliant on public spending. Public growth also has slowed sharply in all South Asian countries, and the region is not yet creating enough jobs to keep up with its rapidly growing working-age population (World Bank, 2024). A major reason for this is that the trade among the countries is very negligible. This lack of mutual trade consensus delays the growth rate of the whole of South Asia.

Therefore, improving trade between SAARC countries necessitates a multipronged strategy that tackles political and economic obstacles. Reducing tariffs, eliminating non-tariff trade obstacles, enhancing trade facilitation, making infrastructure investments, and assisting with trade finance, especially for SMEs (Small and Medium Enterprises), are important steps. Increasing trade capacity, encouraging investment, and fortifying customs cooperation can all help to improve regional trade efficiency. Long-term economic cooperation also depends on maintaining political stability, which includes settling territorial conflicts like Kashmir and promoting greater economic integration through programs like SAFTA. South Asian countries can realize their full trade potential and promote regional prosperity by putting these practical measures into practice.

Conclusion

Pakistan and India share a long border and cultural and historical ties. However, both states have long indulged in rivalry against each other. The trade relations between both states were managed at the maximum level throughout history, despite all the odds at the political level. The bilateral trade at the start was at a high level. However, the trade relations between both states remained fluctuating during Minister Modi's tenure. It has been profoundly shaped by the domestic politics and geostrategic proximities of Modi's India. Therefore, the Modi's economic nationalism and Pakistan's security-driven economics have derailed trade from 2600 \$ M in 2016 to the meagre 300 \$ M in 2021. Mainly, there is no possibility of bilateral trade on the ground by the PM Modi side, though Pakistan continuously emphasized it. The Kashmir politics, terrorism incidents, societal narratives, and non-organised economic barriers stifled the economic potential of both states. This also has an overlapping impact on the regional political

economy of South Asia. The region is being considered as the Least-Integrated, with intra-regional trade only hinges to 3% (22 \$ B). This reflects the interstate rivalry, superpower influence, and weak infrastructure plans. For this, Pakistan still has multifaceted opportunities like leveraging CPEC, IT markets, and Silk trade routes. However, the need of the hour is to carry out holistic economic policies, reducing state-level barriers, and fostering economic-cum-political integration. These far-reaching steps are imperative for the regional prosperity, converging a shift from the political hostility to the economic interdependence.

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